FDIC State Profile

SUMMER 2003

Washington

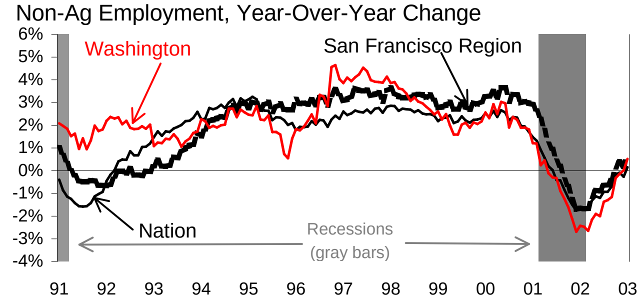
The Washington economy began to recover during the year ending January 2003, but still reported one of the highest unemployment rates in the nation.

- Payroll employment expanded 0.5 percent during the year ending January 2003 (see Chart 1) but remained well below the peak attained in early 2000. Manufacturing employment declined 7.7 percent during the year, led by layoffs at Boeing, by far the largest private employer in the state.
- Already in a slump before 9/11, Boeing has been severely affected by the subsequent declines in the airline industry. Boeing cut 18 percent of its Washington workforce during 2002, and plans more layoffs. The company warned many of these cuts will be permanent.
- A decline in demand for high-tech products and a cutback in venture capital investment contributed to a loss of 20,000 jobs in the "dot.com" and high-tech sectors in 2002.[1]
- As of January 2003, the state's unemployment rate was 6.7 percent, the third highest rate in the nation, surpassed only by Alaska and Oregon. Aerospace and high-tech sector weaknesses pushed up average unemployment rates in the Seattle, Tacoma, and Portland metropolitan statistical areas (MSAs) in particular. Average unemployment rates within MSAs elsewhere in the state remained relatively stable or improved during 2002 (see Chart 2).
- Although Washington projected a budget shortfall in fiscal 2004 equivalent to 9 percent of its state budget, it has faired better than its neighbors because over 75 percent of its fiscal year 2002 revenue collections derived from sales taxes. Despite strength in the consumer sector nationwide, the state's weak economic conditions have adversely affected sales tax collections. During the fiscal year 2002, Washington's sale tax collections declined 1.1 percent, which was contrary to the positive 1.1 percent growth in this tax revenue base nationally.

Softening demand for commercial real estate (CRE) in Seattle could adversely affect credit quality among insured institutions with relatively high CRE loan concentrations.[2]

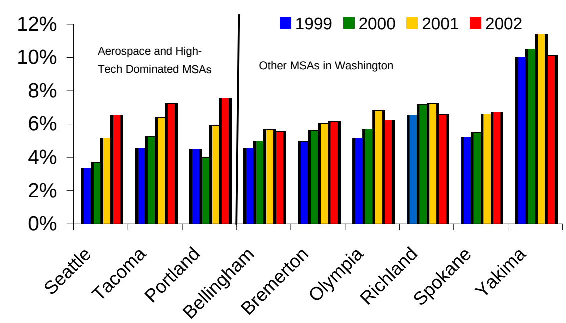
Chart 1: Job Losses in Washington Were Severe During the Recent Recession

Non-Ag Employment, Year-Over-Year Change



Note: End of 2001 recession projected to be February 2002; official date not yet determined

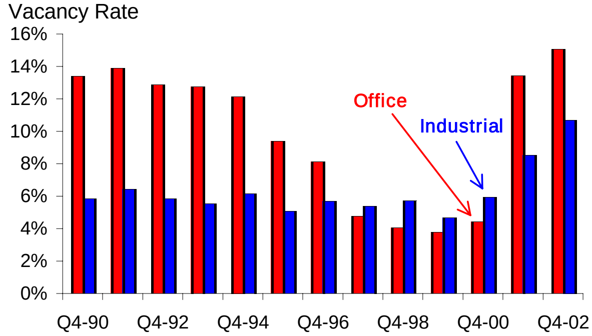
Chart 2: Unemployment Rates Increased Most in Aerospace and High-Tech MSAs



Source: Bureau of Labor Statistics

Chart 3: Office and Industrial Vacancy Rates Have Increased Rapidly in the Seattle MSA

Vacancy Rate



Source: Torto Wheaton

[1] Dunphy, Stephen H., "Seattle's Long Road Back: Return to Economic Health Won't Be Rapid," *Seattle Times*, August 18, 2002.

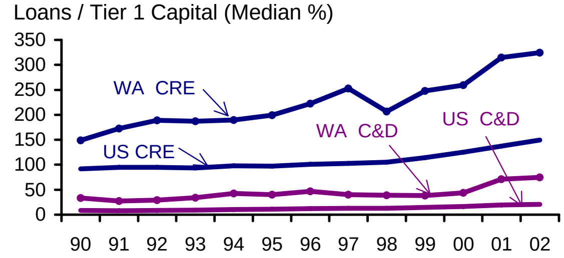
[2] CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

- The slowing economy has weakened demand for commercial properties in the Seattle MSA. Office and industrial vacancy rates have climbed sharply to 15 and 11 percent, respectively, during the past three years (see Chart 3). According to fourth quarter 2002 Torto Wheaton Research data, Seattle office rents have declined 25 percent from their peak in fourth quarter 2000, and industrial rents have declined 27 percent since their first quarter 2000 peak; both markets are expected to remain soft.
- Insured institutions headquartered in Washington are exposed to deterioration in the CRE and construction and development (C&D) markets. The median CRE loan-to-Tier 1 capital ratio among established community[3] institutions was 324 percent as of December 31, 2002, more than double the national ratio. The median C&D-to-Tier 1 capital ratio was 75 percent, nearly four times the national ratio (see Chart 4). Concentrations among insured institutions based in the Seattle MSA are even higher.[4]
- Despite the continuously increasing exposures to CRE and construction loans, the median CRE loan delinquency ratio reported by Washington's established community institutions dropped from 1.04 to 0.35 percent during 2002.
- Lower interest rates may have enabled property owners to reduce financing costs, thereby offsetting the effects of lower rental income. In addition, low interest rates appear to be keeping capitalization rates low and property values stable, despite deteriorating fundamentals.

Earnings and asset quality improved among insured institutions headquartered in Washington during 2002.

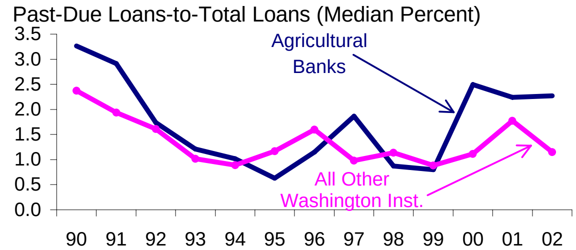
- Median return on assets among insured institutions headquartered in Washington improved from 0.94 percent at December 2001 to 1.04 percent a year later, slightly below the national median of 1.06 percent. Net interest margins (NIM) widened and overhead costs declined, contributing to this improvement.
- Earnings trends are, in part, a reflection of the high proportion of savings institutions headquartered within the state. Approximately 21 percent of Washington-based insured institutions were savings institutions, compared with 16 percent nationally. In general, thrifts benefited more than commercial banks from declining interest rates during 2001 and 2002.
- Despite weak economic conditions, the median past-due ratio among established community institutions headquartered in Washington decreased from 1.77 percent to 1.15 percent during 2002. However, the 13 agricultural banks[5] headquartered in the state reported a median past-due ratio of 2.3 percent, slightly worse than the year-earlier level (Chart 5).

Chart 4: Washington Institutions Report High Exposures to Construction and CRE Lending



Notes: Excludes institutions less than 3 years old, over $1 billion in assets, and specialty institutions. CRE = commercial real estate; C&D = construction and development.
Source: Bank and Thrift Call Reports (December of each year)

Chart 5: Agricultural Banks Had Continued Asset Quality Problems in 2002



Note: Excludes insured institutions under 3 years old, over $1 billion in total assets, and specialty institutions. Agricultural banks have agricultural lines and farm real estate loans exceeding 100 percent of Tier 1 Capital.
Source: Washington Bank Call Reports (December of each year)

[3] Defined as insured institutions open more than 3 years, with assets of less than $1 billion, and excludes specialty institutions.

[4] As of December 31, 2002, the median CRE loan-to-Tier 1 capital and C&D-to-Tier 1 capital ratios reported by insured institutions headquartered in the Seattle MSA were 392 percent and 111 percent, respectively.

[5] Agricultural banks include insured commercial banks in operation at least three years, holding less than $1 billion in total assets, with agricultural loan-to-Tier 1 capital ratios exceeding 100 percent.

Washington at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	102	98	102	103	99
Total Assets (in thousands)	72,200,628	72,539,442	72,116,259	68,265,774	63,318,241
New Institutions (# < 3 years)	11	14	18	19	14
New Institutions (# < 9 years)	35	33	35	32	29

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.45	9.30	10.29	10.52	10.15

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.05%	1.40%	1.04%	0.72%	0.91%
Past-Due and Nonaccrual > = 5%	5	5	2	3	1
ALLL/Total Loans (median %)	1.31%	1.20%	1.14%	1.10%	1.16%
ALLL/Noncurrent Loans (median multiple)	1.69	1.32	1.90	2.51	2.60
Net Loan Losses/Loans (aggregate)	0.29%	0.24%	0.13%	0.12%	0.09%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	10	13	16	17	13
Percent Unprofitable	9.80%	13.27%	15.69%	16.50%	13.13%
Return on Assets (median %)	1.04	0.94	0.98	1.04	1.07
25th Percentile	0.57	0.50	0.41	0.44	0.68
Net Interest Margin (median %)	4.67%	4.49%	5.09%	5.02%	5.03%
Yield on Earning Assets (median)	7.17%	8.24%	8.91%	8.23%	8.60%
Cost of Funding Earning Assets (median)	2.32%	3.65%	4.03%	3.29%	3.54%
Provisions to Avg. Assets (median)	0.32%	0.28%	0.28%	0.21%	0.18%
Noninterest Income to Avg. Assets (median)	0.62%	0.61%	0.50%	0.49%	0.63%
Overhead to Avg. Assets (median)	3.56%	3.59%	3.67%	3.92%	3.76%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	91.64%	92.26%	89.96%	87.37%	80.71%
Loans to Assets (median %)	73.08%	76.52%	75.77%	72.28%	66.83%
Brokered Deposits (# of Institutions)	33	27	21	13	10
Bro. Deps./Assets (median for above inst.)	3.04%	3.19%	3.52%	0.41%	0.41%
Noncore Funding to Assets (median)	22.27%	21.89%	21.46%	17.73%	14.36%
Core Funding to Assets (median)	65.61%	65.52%	66.82%	68.51%	71.27%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	63	60	63	62	57
National	14	14	15	16	18
State Member	3	2	2	2	2
S&L	7	7	7	7	7
Savings Bank	1	1	2	2	2
Mutually Insured	14	14	13	14	13

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Seattle-Bellevue-Everett WA PMSA	39	48,728,886	38.24%	67.49%
No MSA	29	7,472,326	28.43%	10.35%
Tacoma WA PMSA	8	2,640,905	7.84%	3.66%
Spokane WA	6	6,936,906	5.88%	9.61%
Olympia WA PMSA	5	1,398,918	4.90%	1.94%
Portland-Vancouver OR-WA PMSA	4	1,331,851	3.92%	1.84%
Yakima WA	3	1,267,177	2.94%	1.76%
Bremerton WA PMSA	3	820,655	2.94%	1.14%
Bellingham WA	3	1,377,455	2.94%	1.91%
Richland-Kennewick-Pasco WA	2	225,549	1.96%	0.31%